MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC 3644 – TAXATION 2

(All sections / Groups)

13 MARCH 2018
09.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

BioFood Sdn. Bhd. is a 100% Malaysian owned resident company engaged in the manufacture of organic food products which carries the brand name called "Wellness". The company's products are well-known among local and overseas consumers. The company commenced business in 1997 with paid up capital of RM3.5 million. The company has provided the following information in respect of the accounts for the year ended 31 December 2017.

	Note	RM'000	RM'000
Sales			12,500
Less: Cost of sales	1		8,400
			4,100
Add: Other income	2		40
			4,140
Less: Expenses			
Promotional expenses	3	600	
Water, electricity and telephone bill		98	
Bad and doubtful debts	4	116	
Repair and maintenance expenses	5	206	
Salaries and wages	6	888	
Professional charges	7	117	
Donation	8	24	
Finance cost	9	33	
Royalty	10	100	
Lease payment	11	55	(2,237)
Net profit before taxation			**1,903**

Notes:

1. **Cost of sales** includes the following: **RM'000**

(i) Depreciation of plant, property and equipment 880

(ii) Provision for inventory obsolescence 7

The opening balance of the provision for inventory obsolescence for the year of assessment 2017 was RM11,000 while the closing balance for the year of assessment 2017 was RM15,000.

2. **Other income** refers to the deposit forfeited on a land transaction. The deposit was received from a potential buyer of a portion of the company's land, who subsequently decided to abort the deal.

3. **Promotional expenses** include **RM'000**

(i) Advertisement expense in Hong Kong newspapers to promote the export of company's products in Hong Kong market 388

(ii) Economy class airfare for the sales manager for a day trip to Indonesia to negotiate a contract for promotion of export, but the contract was not successful 2

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	Promotional expenses include **(Con'd)**	**RM'000**
(iii)	Expenses incurred in respect of free product samples to potential customers in Taiwan market	45
(iv)	Expenses incurred on international trade fairs held in Malaysia for the promotion of export (approved by Minister of International Trade and Industry)	30
(v)	Expenses incurred to obtain Halal certification. This is evidenced by a certificate issued by the recognised certification body.	10
(vi)	Entertainment expenses: gifts and trips for dealers for achieving sales targets	50

4.	**Bad and doubtful debts** consist of:	**RM'000**
(i)	Bad debts written off	30
(ii)	General bad debts provision	57
(iii)	Specific bad debts provision	29

5.	**Repair and maintenance expenses** include	**RM'000**
(i)	Construction of a car park within the factory premise	12
(ii)	Replacing part of the factory's fencing destroyed by vandalism	2

6. **Salaries and wages**
This includes air fares amounting to RM14,000 for a company trip to Langkawi, Malaysia for company employees and their immediate families. This is the yearly event organised by the company.

7.	**Professional charges** include the following expenditures:	**RM'000**
(i)	Statutory audit fee	25
(ii)	Information technology expenses to improve production process in factory	15
(iii)	Legal fees for trade debt collection	12
(iv)	Fees paid for payroll processing services	30

8. **Donation**
This amount refers to the donation of 6 computers by the company to approved charitable institutions.

9. **Finance cost**
The finance costs relate to the interest paid on a loan borrowed from a Malaysian bank of RM500,000. The company use the fund to finance its operations in Malaysia.

10. **Royalty**
Royalty amounting to RM90,000, net of withholding tax of 10% was paid to a non-resident on 16 November 2017. The amount of the withholding tax and the related penalty remain unpaid.

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11. **Lease payment**
During the year, the company leased a saloon car for business use, and paid RM55,000 (a new car would have cost RM600,000).

The capital allowance for the assets acquired by BioFood Sdn. Bhd. have been computed at RM740,000 for the year of assessment 2017.

Required:

Starting with the 'net profit before taxation', compute the chargeable income of BioFood Sdn. Bhd. for the year of assessment 2017.

Note: You are NOT required to explain the adjustments made in the tax computation except to indicate "Nil" where no adjusting entries are required. Show all workings.

[Total: 20 marks]

QUESTION 2 (20 MARKS)

a) Haikal, is a Malaysian citizen bought two apartments at the price of RM120,000 (apartment A) and RM250,000 (apartment B) on 12 January 2014 in which he resides in apartment B. He incurred stamp duty and legal fees of RM3,600 for apartment A and RM15,000 for apartment B. On 4 August 2015, he acquired a double-storey shop lot for RM650,000. The stamp duty and legal fee paid were RM39,000. The ground floor was used as a premise to operate his laundry business and the first floor was rented to Cergas Fitness Sdn. Bhd. to operate a wellness center. He spent RM28,000 renovating the ground floor.

However, Haikal sold the double-storey shop lot to Cergas Fitness Sdn. Bhd. for RM1.2 million on 25 September 2017 (in which RM700,000 for the ground floor and RM500,000 for the first floor). The expenditures incurred on disposal were the real estate agent fee of RM36,000, valuation fee of RM25,000 and legal fee for transfer of property of RM38,000.

Haikal decided to buy a new condominium after he married with Alisa, a non Malaysian citizens. Therefore, he sold his apartment B to Bob at RM330,000 on 2 January 2017 to be used as a deposit to acquire a new condominium. The buyer agreed to purchase the apartment and signed an agreement on 15 June 2017. The payment was settled on 18 October 2017, and the title was transferred to Bob on 30 December 2017. Total incidental cost incurred by Haikal on disposal was RM10,500 and he had not elected for any exemption for private residence under the Real Property Gains Tax Act 1976.

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Required:

(i) **Compute the real property gains tax (RPGT) arising from the disposal of the real properties by Haikal. Clearly identify the disposal price, the acquisition price and the tax rate applicable to the disposal.**

(13 marks)

(ii) **Explain the real property gains tax treatment if Haikal decides to transfer the ownership of apartment A to Alisa, Haikal's wife as a gift in the year of assessment 2018.**

(5 marks)

b) Jack is a non-resident in Malaysia, acquired a condominium on 5 October 2013 for RM455,000. He decided to sell his condominium on 10 February 2017 in which he had been residing up to the date of disposal. Prior to this, he never disposed any property in Malaysia.

Required:

State, with reasons, whether or not Jack is entitled to private residence exemption under the Real Property Gains Tax Act on the disposal of his condominium.

(2 marks)

[Total: 20 marks]

QUESTION 3 (20 MARKS)

Carbo Techno Bhd. (financial year end 31 December) is a local Malaysian company incorporated on 1 January 2010. The company has been granted with pioneer status of 70% for the manufacturing of promoted products and the production date was 1 May 2016. For the year of assessment 2017, it has incurred RM780,000 qualifying expenditure for manufacturing business and it was entitled to a capital allowance at the rate of 20% for initial allowance and 20% for annual allowance. The company is also engaged in the trading business in computer hardware and software (non-pioneer):

Other information:

	RM
Adjusted income (manufacturing business)	3,500,000
Capital allowance brought forward (manufacturing business)	120,000
Interest income	85,000
Royalty income	150,000
Adjusted loss (trading business)	(210,000)
Cash donation to state government	25,000

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Required:

(i) Determine basis periods for the pioneer business. **(4 marks)**

(ii) Compute and determine the amount of exempt income and chargeable income of the company for the year of assessment 2017. **(6 marks)**

(iii) Compute and determine the amount of exempt income and chargeable income of the company for the year of assessment 2017 if the company has been granted with investment tax allowance (ITA). **(6 marks)**

(iv) Based on your answer in (i) and (ii), advise Carbo Techno Bhd. on the decision to apply for the investment incentives. **(4 marks)**

[Total: 20 marks]

QUESTION 4 (20 MARKS)

a) The Big Hand Construction Co. (TBHC), a Germany construction company (non-resident company in Malaysia), was awarded a contract to build a highway in the state of Pahang. A total value of the contract is RM150 million in which RM20 million is for service portion and RM130 million for material portion. The company hired employees from abroad to involve in the construction. In the year of assessment 2017, TBHC makes a chargeable income of RM9 million.

Required:

(i) Explain whether the whole sum of RM150 million will be subjected to withholding tax. **(7 marks)**

(ii) Compute the tax liability (if any) of TBHC for the year of assessment 2017. **(3 marks)**

b) Kuari Mine Sdn. Bhd. (KMSB) is a local Malaysian company incorporated on 1 January 2011. The company commenced its mining operations on 1 October 2012 and prepared its accounts to 31 December each year. The expected life of the mine is ten years. KMSB incurred qualifying mining expenditure in the sum of RM755,000 in 2012. However, at the end of 2017, KMSB has to cease its mining operation and sell it to another company at the price of RM640,000.

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The following expenses were incurred by KMSB:

Year ended 31 December	Expenditure	RM
2012	Cost of site	520,000
	Testing and prospecting expenses	36,000
	Construction of road	98,000
	Site office	101,000
2014	Development cost	67,000
	Mining works and structures	30,000

Required:

(i) Compute the mining allowance for KMSB for all the relevant years of assessment. **(6 marks)**

(ii) Briefly explain the treatment upon the cessation of the mining operations (not sale or transfer) if the company makes an election under Paragraph 15 of Schedule 2, Income Tax Act 1967 (amended). **(4 marks)**

[Total: 20 marks]

QUESTION 5 (20 MARKS)

(a) In order to cope with the non-compliance issue, the tax authorities employ several methods to detect the tax evasion of taxpayers. Discuss **TWO (2)** relevant methods of discovering tax evasion.

(5 marks)

(b) Ms Chong operates a bakery shop at Bukit Beruang, Melaka. She is a busy career woman and has limited time to update the accounting records of her business. In early 2018, the Inland Revenue Board (IRB) had requested her to produce the accounting records of her bakery business for further examination at the IRB office.

Ms Chong had put together some information for the basis years 2016 and 2017 and prepared the balance sheets for the relevant years accordingly (see Balance Sheets on the next page).

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Ms Chong
Balance Sheet as at 31 December

	2016	2017
	RM	RM
Capital	66,000	263,391
Profit and loss account		
Balance b/f	358,100	401,887
Add: Profit for the year	144,000	65,000
	502,100	466,887
Less: Drawings	100,213	181,120
Balance c/f	401,887	285,767
Proprietor's funds	467,887	549,158
Represented by:		
Fixed assets	105,806	154,321
Current assets	555,881	551,000
Less: Current liabilities	193,800	156,163
Working capital	362,081	394,837
Total net assets	467,887	549,158

Below is the information provided by Ms Chong concerning her personal affairs:

i. Ms Chong is an active investor. She invested in bonds issued by Mayabank Berhad amounted to RM50,000 in January 2017. She eventually sold the bonds on its maturity date on 29 December 2017 and managed to earn RM3,000 from her fixed income investment. Besides, Ms Chong also acquired shares of RM30,000 in public listed companies traded on Bursa Malaysia in June 2017.

ii. In March 2017, Ms Chong attempted to sell her products online and she attended an e-commerce course at the cost of RM20,000 in order to enhance her online business knowledge.

iii. In April 2017, Ms Chong won the baking contest organized by Blue Key Flour Sdn. Bhd. The cash price won by her amounted to RM4,000.

iv. In May 2017, Ms Chong won lottery of RM13,000.

v. Ms Chong bought an antique watch costing RM20,800 in July 2010. She managed to sell the watch in June 2017 at RM30,000.

vi. On her birthday on 31 August 2017, Ms Chong's parents gave her a gold bracelet worth RM7,000 as her birthday present.

vii. Ms Chong bought a double storey house in March 2014 located at Jalan Klebang Besar at RM200,000. She sold the house for RM450,000 in September 2017.

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viii. Ms Chong inherited a shop house located at Jasin, Melaka from her grandfather in 2015 just before he passed away. The shop house was sold in October 2017 for RM200,000. Part of the money was used for her mother's medical treatment at a private hospital (see 'Private and personal expenses account' below).

ix. In year 2016, Ms Chong bought a passenger car worth RM150,000. She sold the car in 2017 and made a loss of RM30,000.

x. In year 2017, Ms Chong bought a shop house located at Jalan Kota Laksamana, Melaka for RM700,000 to expand her bakery business. She paid the sum of RM400,000 in cash as deposit. The balance was financed by bank loan. The total amount of instalments paid by Ms Chong for year 2017 amounting to RM32,400.

xi. In December 2017, Ms Chong bought a Mercedes Benz car. The cost of the car was RM350,000. She made a down payment of RM100,000 in cash. The balance was financed by a hire purchase loan. The instalment of the loan will commence in January 2018.

xii. Ms Chong managed to trace the following expenses incurred in 2017:

Private and personal expenses	**RM**
Food and beverages	125,000
Trip to London	90,000
Medical expenses for mother	84,000
Household expenses	43,000
Passenger car maintenance expenses	5,000
Miscellaneous expenses	10,000
Total	357,000

Required:

Based on the information provided, determine whether there is any discrepancy of income reported by Ms Chong to the tax authorities for the year of assessment 2017 by using the capital accretion method (mean test). (15 marks)

[Total: 20 marks]

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APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of resident company

Companies with paid-up capital <= RM2.5 million (at the beginning of the year of assessment)	Tax rate for the year of assessment 2017
On the first RM500,000	18%
On the remainder	24%
Other companies	
All chargeable income	24%

ii) Tax rates of non-resident company

All chargeable income	24%

iii) Withholding tax rate

Type of income	Year 2017
	Rate of Tax (%)
Interest	15
Royalty	10
Special classes of income	10
Public entertainers	15
Section 4(f) income	10
Contract payment	10% + 3%

iv) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

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v) Agriculture and forest allowance

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure-Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

vi) Real property gains tax

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

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